

# SFP Quarterly



Issue 3 2010

## CEO's Message

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## CEO's Message

In today's society, raising children is becoming more expensive, especially as the cost of living keeps growing. Forget about Playstations, mobile phones, cameras and plasma's that teens crave. The main concern for most parents is the financial affordability to provide their children the best asset they can have: an education.

Parents understand that through further education, their child will have a higher possibility for better employment, thus securing a better future.

People we interview often ask us when is the right time to start saving for their children's education. Our advice is NOW! The earlier you start, the less you will need to contribute monthly and compounding return can help enhance your accumulation.

Most parents don't know how much they need to save. Main education costs are tuition fees, books and supplies, travelling costs, accommodation and living expenses. While some children prefer to study locally, others may prefer destinations overseas. Today, a three year local university course can cost parents between RM50,000 - RM100,000. However, for parents who intend to send their children abroad, they need to consider setting aside about RM200,000 - RM600,000!

Will the cost of education be the same 18 years from today? NO. Tuition fees go through a gradual increase annually, and living expenses will increase due to inflation. If we estimate a 6% increase for the cost of education, we are looking at an average of RM200,000 for local universities, and an average of RM1,000,000 for foreign universities in 2018.

What are the financial aids available? While most parents hope their children inherit 'smart genes' and are therefore able to earn government and corporate scholarships to fund their education, only a handful succeed among tens of thousands every year. For those of us who don't have much faith in genetics, we can turn to government loans such as Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) where priority is given to students from lower-income families, however competition is high. Others may take loans from banks to fund their children's education but most banks will require collateral and commonly charge 1.5-2% above base lending rate (about 8% interest).

The following article explains three steps to planning for your kid's education.

Paul Khoo, CEO | Standard Financial Planner



## Three Steps To Planning

### For Your Kid's Education

**Raising a child is a life-time job. In this article, we give our take on how you can save for your kid's educational success.**

Our children are our most precious assets and we all want to bring out the best in them. As globalisation takes hold, parents of this generation understand the growing need to help their children achieve global competitiveness. These parents would most likely be considering an overseas education for their children. Starting to build an education fund during early parenthood may be a good way for couples to mitigate the stress of having to fund their child's tertiary education when the time comes.

One of the many ways to reach your goal in a disciplined manner is to construct a portfolio. There are three essential steps you could follow to save for your children's education fund;

### 1. Have an education cost schedule

Table 1 shows an estimation of annual education costs (both tuition fees and living costs) for a bachelor's degree programme in business for various countries from which two conclusions can be drawn: Firstly, in comparison to the annual education cost for a bachelor's degree programme in business from Malaysia, the total education cost for most of the overseas universities is at least four times more expensive; secondly, the need to plan early is evident as the earlier you plan, the lighter your burden will be each year.

### 2. Examine your financial position and risk appetite

Planning early makes things easier, but being sensible is also important. Parents should evaluate whether they are capable of sending their kids abroad based on their household income and set their monthly savings amount accordingly. There are other more affordable alternatives which allow us to complete the first part of our studies in one country before transferring to the twinning partner university overseas to complete the remaining duration of the degree programmes and external programmes or distance learning. A suitable savings proportion would be 10% to 15% of the household income in order to maintain a sufficient amount of emergency money for other necessary family expenses.

There are many investments that can generate positive returns, so it all boils down to the investors' risk appetite. The investment horizon for an education fund should correspond to the period from birth until higher education, which is usually 18 years. With such a long investment horizon, young couples are able to take on more risks with their investments than they usually would because there is more time to recover from market slumps.

### 3. Build a suitable portfolio with proven investment strategies

Unit trusts represent one viable investment option for young couples to build their child's education funds. As unit trust specialists, we will focus on unit trust

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## Continued...

investment strategies that can help young couples start their children's education fund.

AN ESTIMATION OF EDUCATION COST FOR A BACHELOR'S DEGREE PROGRAMME IN BUSINESS (PER YEAR) FOR VARIOUS COUNTRIES (IN RM)

Country	University	Tuition Fees	Living Costs	Total Cost
Australia	Monash University	58,522	69,547	128,069
Canada	University of Toronto	82,512	84,665*	167,177
Malaysia	University Tunku Absul Rahman	11,000	14,000	25,000
Singapore	Nanyang Technological University	64,447	47,314	111,761
United Kingdom	University of Glasgow	51,741	40,430	92,171
USA	University of Washington	125,572	43,593*	169,170

## Using our Regular Savings Plan (RSP)

With a RSP, the minimum initial investment amount of unit trusts, which is usually RM1,000, goes down to as low as RM100, thus making unit trusts more affordable. In addition, the RSP invests a fixed amount every month into unit trusts, ensuring that investors buy less units of the fund when markets are doing well and the fund price is high and more units when markets are not doing well and the fund price is low. This disciplined approach ensures that investors need not worry about catching the market's high or low points.

## Portfolio Diversification

Another complementary and equally important investment strategy would be portfolio diversification. Diversification involves splitting up your money so that it can be invested in different kinds of investments. Put simply, it means not putting all your eggs in one basket. This strategy makes a portfolio more resilient to adverse changes in a single sector or region, giving investors more confidence as it provides good overall returns even if some investments made losses. Using a core and supplementary portfolio investment approach would be a useful strategy to adopt in this instance.

**Note:** to find out more about structuring your own regular investment plan, speak to your SFP financial adviser today!

Source | iFast

# Economic Update

May was a month of flight to safe assets, particularly USD-denominated. This caused shorter ends yields to rise due to net selling activities by foreign players, after a strong buying programme in April. April was a good month due to foreign investors buying into shorter term Malaysian debt papers, to ride on the strong Ringgit outlook. Coinciding with the uncertainties in Europe, the Ringgit weakened against the USD as a result of flight to safety.

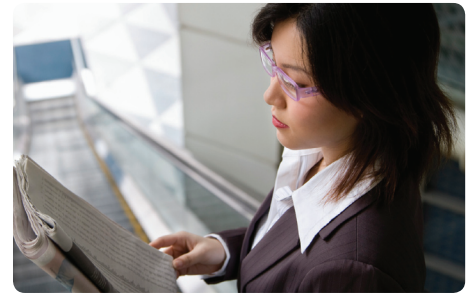
In its May MPC meeting, Bank Negara Malaysia hiked its OPR by another 25bps to 2.50%, its second hike this year. In the MPC statement, the strong economic recovery is established and going forward, growth will be supported by expansion in domestic demand and improvement in external demand. The OPR hike reflects further normalization of monetary conditions to prevent the build-up of financial imbalances. Yields did not react immediately as it was largely expected. As for the remaining months, we believe another 25bps hike is likely as normalization of monetary policy continues.

As at the end of May 2010, the three year benchmark yield, which recorded strong buying the previous month, was up 13bps to 3.21% due to selling pressure from foreign investors. The five year, seven year, ten year benchmark yield were down 3bps, 1bps, and 3bps 13bps to 3.59 3.62%, 3.79%, and 4.03%, respectively. The 20 year benchmark yield was flat.

Elsewhere, secondary trading on the corporate bond market was active in May. Appetite for credit remained healthy, although trading remained skewed towards higher grade AAA and AA1 rating segments. There was also a pickup along the AA and A segments, especially along banking and infrastructure names.

On the economic front, Malaysia's 1Q10 GDP growth was 10.1% YoY, underpinned by expansion in domestic demand (+5.4%) and strong external demand. Domestic demand was supported by higher private consumption (+5.1%) and sustained public sector spending (+6.3%). Gross export has risen 30.8%, on the back of increased demand for E&E products, especially from the regional countries and a strong turnaround in the export of commodities.

Separately, headline inflation in April has risen



1.5% largely due to higher prices of meat and vegetables. Prices in the transport and miscellaneous goods and services categories also increased by 1% and 2.5%, respectively. Going forward, inflation should remain below 2% in 2010, but this would be challenged if the Government decides to reduce fuel and utilities subsidies this year.

Considerable uncertainties remain due to heightened concerns over the sovereign debt problems in Europe and the effect from a decline in fiscal support. While the sovereign debt problems are largely contained in Europe, global sentiment will take a hit should there be a major implosion. Despite the announcement of the 750bn bailout package, sentiment remains jittery as the package lacks pertinent details on policy strategy such as how and who should control the war chest and the timing of rescheduling Greek's debts. We believe the bailout package is just a stop-gap measure because the problems lie deeper than just sovereign debt issues. Even if Greece were to do everything it promised, they will still end up with a public debt over 150% of GDP. The key problem with Europe is deep structural issues. Germany, as the key export market, has to boost domestic demand and spendthrift economies have to balance fiscal austerity without demand taking a big hit. Germany, without consulting with its European counterparts, implemented a ban on naked short selling, further exacerbating the problem.

Other than weak sentiment and jittery global markets, growth in Asia is expected to be stronger, supported by robust domestic and external demand.

In terms of Pheim Income Fund Strategy, we will continue to buy short term paper as we are still concerned of higher inflation with the withdrawal of subsidies this year.

Source: Pheim Unit Trust

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